

Chapter I



Strategic Plan

CALIFORNIA HOUSING NEEDS AND TRENDS

Housing is not only a significant component of the economy; it is pivotal to California's economic recovery and long-term economic competitiveness. Bringing California back as the Golden State, with the promise of prosperity for all, requires the commitment and leadership of all levels of government and the private sector to ensure an adequate supply of housing is available and affordable for all Californians.

California continues to experience high rates of population growth and further tightening of its housing markets. Even encompassing the recession of the early 1990s, California's population grew by an average approximating 450,000 people annually and is projected to gain around 600,000 annually over the next decade. As of January 1, 2004, California's population was 36,144,000 which increased by 532,000 people in 2003. The new population reflects a 1.5 percent increase over 2003. This is just under the 1.6 percent growth rate experienced in calendar year 2002 when the State added 563,000 residents. While the average annual need is projected at approximately 220,000 housing units, construction has lagged substantively below the need. Since 1999, less than 170,000 residential new construction permits have been issued each year. While California is expected to see a significant increase in 2004 - 210,527 new homes and apartments are projected to be built), representing the highest production since 1989, the demand still far exceeds the supply. This is especially true when the many years of production shortfalls are considered.

The greatest housing production "gap" continues to be in multifamily or attached housing. Multifamily development only accounted for about a quarter of new units during the 1990s, a drop of nearly 70 percent from the levels of the 1980s. Since 2000, the number of multifamily units has increased slightly, totaling approximately 28 percent of all new units constructed.

It is generally agreed the root cause of the housing crisis in California is the lack of sufficient supply. The housing affordability challenge is in large part an availability problem. Strong demand for an extraordinarily constrained supply in areas where people already live and jobs are being generated drives prices and rents higher. Too many local governments are not even planning adequately to meet their own population increases, further exacerbating the supply problem. The jobs-housing imbalance in many regions is pushing housing farther and farther away from job centers, resulting in inefficient land-use patterns—one of the greatest threats to California's environmental quality.

With demand high and supply low, housing prices have escalated to record levels. California's homeownership rate is the third lowest in the nation (58 percent) and more than 10 percent lower than the national homeownership rate (68 percent). Only 19 percent of California's households can afford to buy the median priced single-family home in November 2004, while nationwide, affordability was 55 percent. The California Association of Realtors reported November 2004's median price of an existing, single-family detached home in California increased to \$473,260 representing a 23 percent increase over November 2003. The disparity between housing production and need has resulted in double-digit year-to-year percentage increases over recent years.

For renters, the housing crisis is even more severe. California is second only to Massachusetts in terms of the hourly wage needed to afford a two-bedroom apartment at the fair market-rate. In California, an extremely low-income household can afford a maximum monthly rent of \$483, while the Fair Market Rent for a two-bedroom unit is \$1,104. A worker earning minimum wage must work 126 hours per week in order to afford the average two-bedroom unit. The hourly Housing Wage (the amount a full time worker must earn to afford the average two-bedroom unit) in California is \$21.24.

Other continuing housing challenges include:

Homeless: Although reliable counts of homeless persons are illusive, in 1997, 360,000 Californians were estimated to be homeless. In the worst circumstances, homeless persons live in places not meant for human habitation including cars, parks, sidewalks, stairwells, or door stoops. It is estimated there are 80,000 to 95,000 homeless children in California, making the percentage of homeless children greater today than at any time since the Great Depression.

Farmworkers: Employment in California agriculture increased 22 percent between 1985 and 2000. As of September 2000, California farm employment peaked at 486,000. California's total farmworker population (including family members) is estimated to exceed 900,000. Approximately 60 percent of farmworkers are accompanied by a spouse, child or parent. The median number of children in families of farmworker parents is two. Farmworkers and their families cope with substandard housing conditions fraught with serious health and sanitation problems. To avoid harassment, they often live out of sight in undeveloped canyons, fields, squatter camps, and back houses.

Privately owned employee housing (licensed by California) has been steadily diminishing. In 1976, employers owned 1,254 employee housing developments sheltering an estimated 45,000 farmworkers and household members, while by 2000, there were only approximately 1,000 licensed employee housing developments with capacity for 23,000 farmworkers and household members. By 2003, there were only 837 private facilities housing an estimated 22,979 employees.

Preservation of At-Risk Units: California continues to face the loss of affordability restrictions on a substantial portion of the government-assisted rental housing stock estimated to house more than 375,000 persons. The risk of owners converting units with subsidized rents for market-rate rents is greatest in the State's highest cost rental markets and is both immediate and continuing beyond 2010. In California, the number of federally assisted units approximates 150,000. California's experience with market-rate conversion of the older-assisted stock suggests that unless new incentives are created to retain Section 8 assistance, 15 to 20 percent of owners of Section 8 inventory are likely to opt-out and terminate their relationship with the U. S. Department of Housing and Urban Development (HUD). Due to tight rental markets in many parts of California, the State has had a level of prepayment and conversion among older-assisted HUD properties that is triple the amount of any other State.

Substandard Housing Conditions: The most recent estimates indicate that as much as 12 percent of California's housing stock is substandard in need of repair. Substandard housing conditions vary by region, however between 30–50 percent of the housing stock in Inyo, Modoc, Imperial, Del Norte and Trinity counties needs rehabilitation. Los Angeles, San Francisco, San Benito and San Luis Obispo counties along with the whole central valley have substandard

conditions greater than the statewide average. In addition, more than 15 percent of all households are living in overcrowded housing, with as much as 24 percent of all renter households overcrowded. These rates of overcrowding have more than doubled since the 1980s. Overcrowding increases health and safety concerns and stresses the existing housing stock and infrastructure.

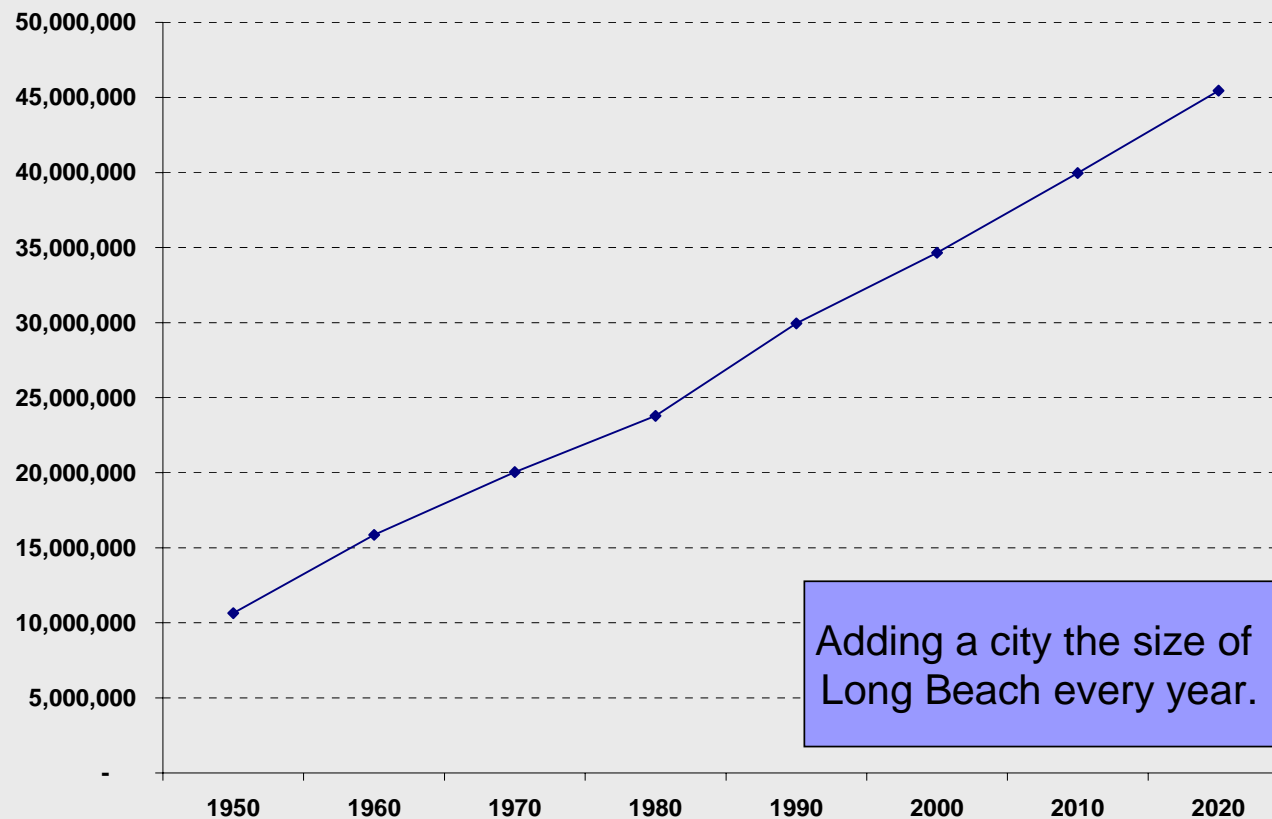
While the housing crisis is exacting a human toll on California families, seniors and workers, there is also a growing recognition of the important role of housing to the State's economy. Reports by the Little Hoover Commission and the California Economic Strategy Panel highlight the importance of housing and the detrimental effect of over-regulation on housing and other economic markets. Surveys of California business leaders continue to report the negative effect of the cost of housing on their businesses and list the lack of affordable housing as one of their top concerns. California Chamber of Commerce President Allan Zaremberg has noted, "In California, the mismatch between what people are earning and what it takes to buy a home is staggering. Not only are housing shortages and high prices chasing working households out of California's job centers but they've begun to chase our workforce to other states where housing is more affordable." The Orange County Business Council recently reported it would not seek to attract new business to the county because of the lack of housing stock.

Further, the homebuilding industry significantly contributes to the State's Gross Domestic Product and is a major economic force that could be further unleashed to stimulate economic recovery. According to the Sacramento Regional Research Institute (March 2004), when all aspects of new housing construction are considered, the housing industry annually contributes 935,000 jobs and \$218 billion to the State's economy. The homebuilding industry accounts for approximately 10 percent of all economic activity in the State and when all economic multipliers are considered, it is the second largest industry group in the State.

HCD is committed to effectively marshalling its resources to increase California's housing supply and affordability and to ensure Californians live in safe, decent housing in economically strong, livable communities. Promoting an adequate housing supply that also maximizes the efficient use of land will allow California to meet its housing goals while strengthening the economy and protecting natural and agricultural resources. This strategic plan proposes policies and programs to achieve these objectives and commits HCD to working effectively with all our partners in the public and private sectors.

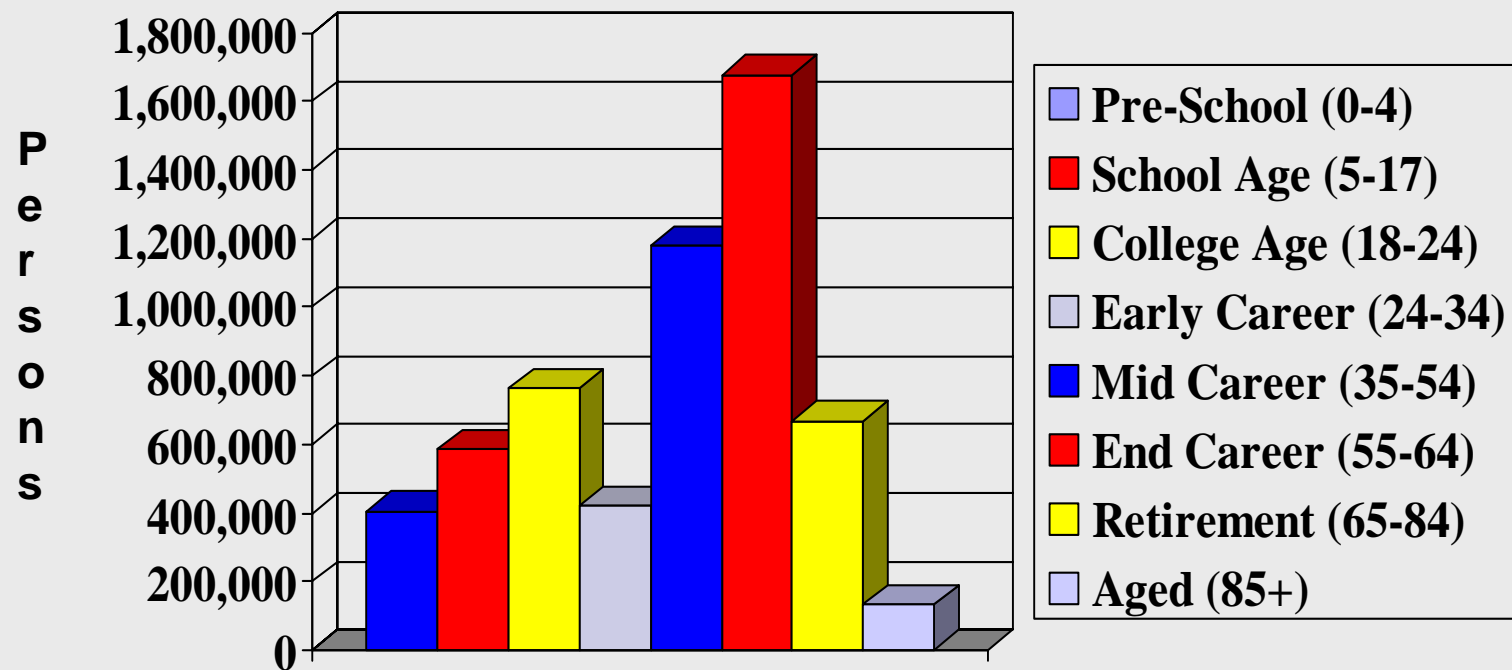
Strong Population Growth

California's Population Predictably Grows +/- 5M Per Decade



Changing Demographics

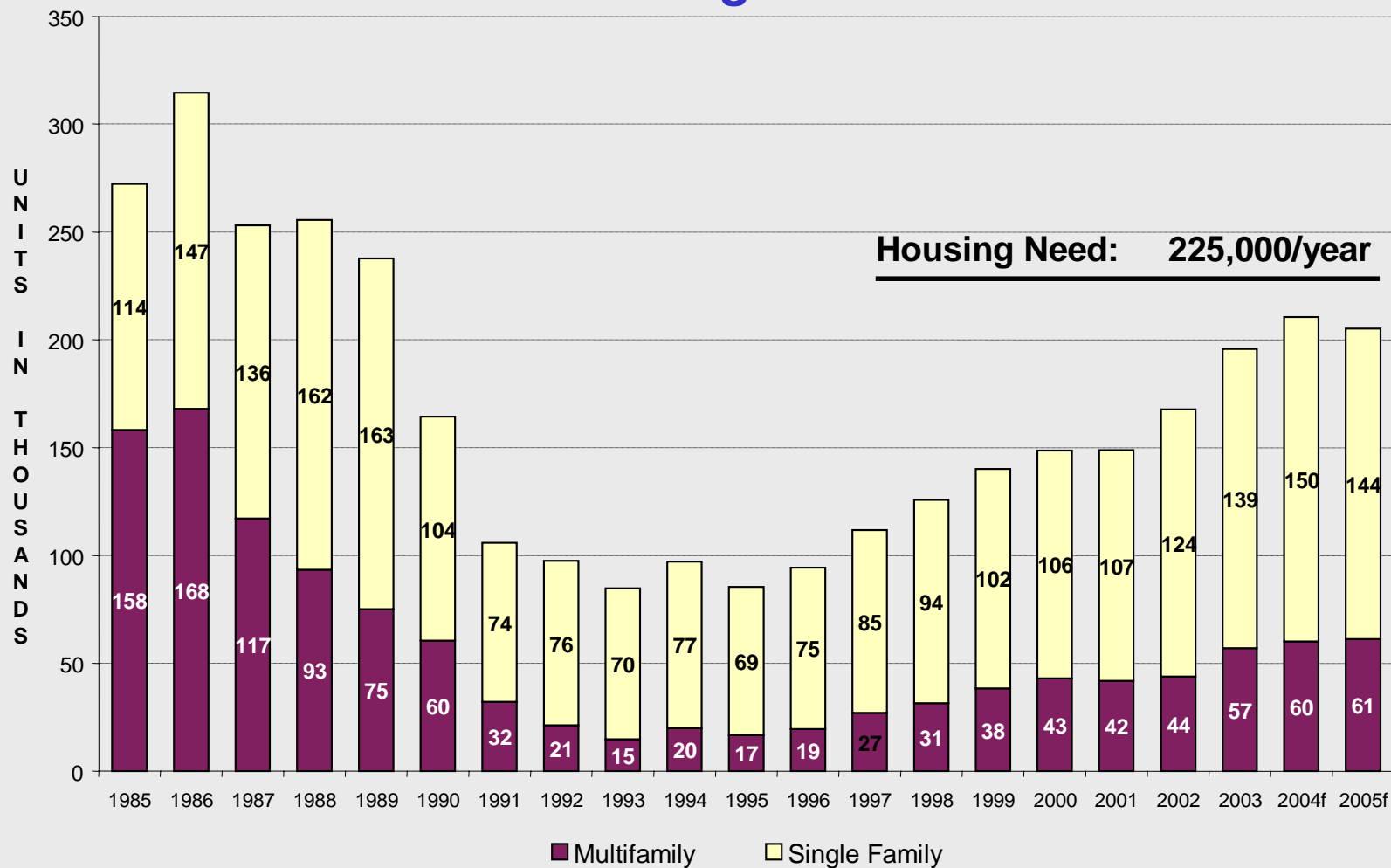
CALIFORNIA'S Projected Growth 2000 – 2010 by Age cohort



Source: DOF Demographic Research Unit, 2004

Housing Supply Shortage

California New Housing Permits 1985 - 2005



SOURCES: CAR; Construction Industry Research Board; CA Statewide Housing Plan,
Graphic representation by HCD

Declining Affordability

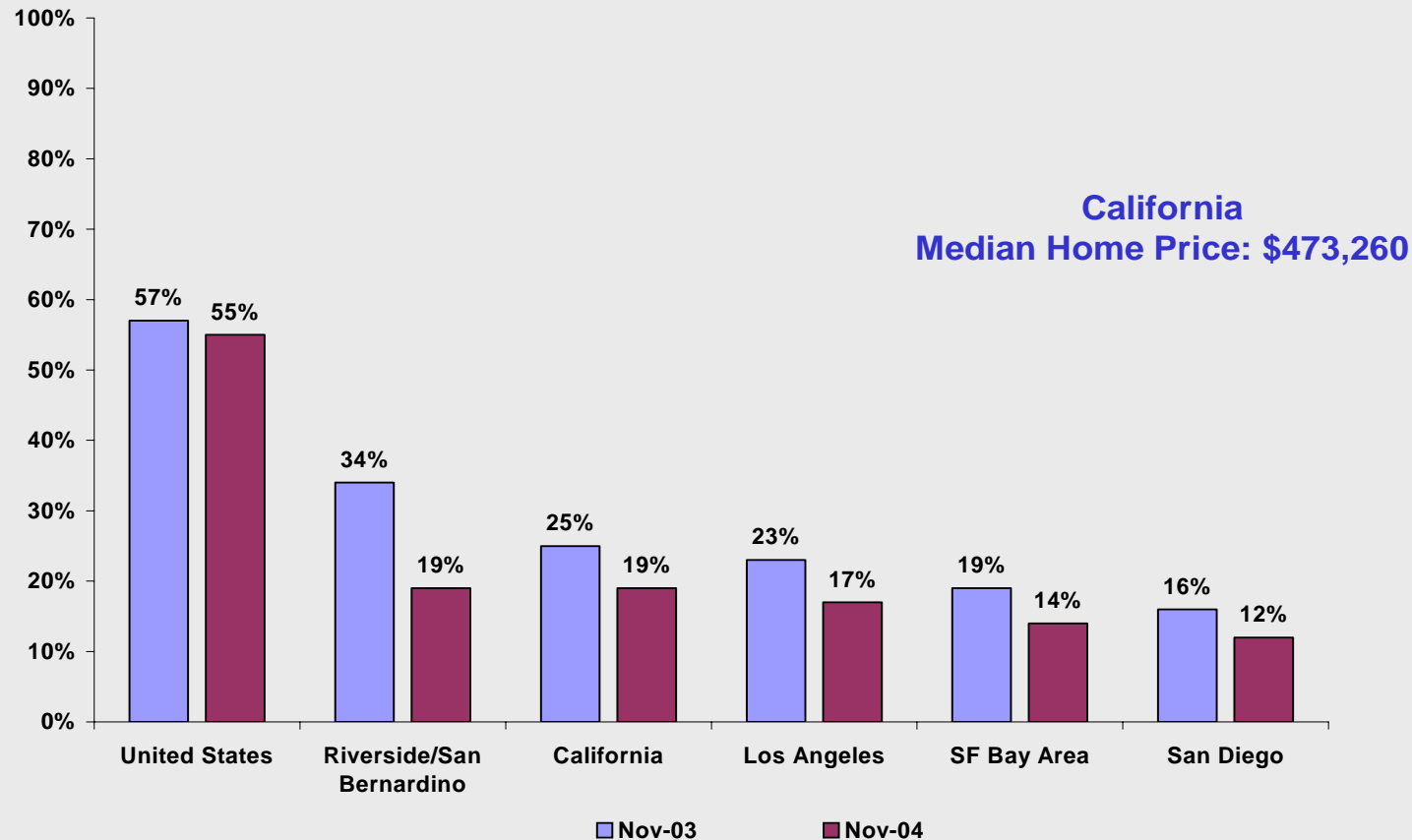
Median Sales Prices:



	<u>Jan 2004</u>	<u>Jan 2005</u>
California	\$404,460	\$485,700
<u>County</u>		
Los Angeles	\$387,840	\$475,880
Orange County	\$523,380	\$634,280
San Diego	\$468,450	\$580,220
Riverside/ San Bernardino	\$245,090	\$338,780

SOURCE:: CA Association of Realtors, Press Release, February 25, 2005

Declining Affordability



Percentage of households able to afford a median-priced detached home

Source: California Association of REALTORS® (C.A.R.), Press Release Thursday, January 13, 2005; Graphic representation by HCD.

WHAT HCD DOES

The Department of Housing and Community Development (HCD) is the State of California's principal housing agency. It performs four primary functions:

- **Advocating and supporting housing development for all Californians.** HCD assists cities and counties to prepare and implement the housing element portions of their General Plans. HCD also develops the periodic Statewide Housing Plan, monitors the use by local redevelopment agencies of their 20 percent housing set-aside funds, and provides technical assistance and statistical data to the Governor, Legislature, and general public.
- **Developing, administering and enforcing building codes, manufactured housing standards, and mobilehome park regulations.** HCD works with industry and other government agencies to develop national model building codes for conventional and manufactured housing, and incorporates them into California's building standards, to ensure the health and safety of California residents. HCD also protects California consumers by registering and titling mobilehomes, overseeing manufactured housing construction, licensing manufactured housing sales professionals, and regulating mobilehome parks.
- **Administering State and federal housing and community development finance programs:**
HCD administers a variety of loan and grant programs for housing and community development. Loans and grants to local governments and private non profit and for profit housing developers leverage additional local public and private resources to increase California's housing supply and build communities. Brief descriptions of these programs are included in the appendix.
- **Compiling and disseminating critical information on housing, planning, financing, and community and economic development issues.** HCD's Housing Resource Center acquires and distributes information from within and outside HCD to local governments, other State agencies and officials, developers, nonprofit organizations and the public. The Center maintains a library of books, reports, journals, newsletters and HCD publications on housing, redevelopment, homeownership, the economy and other subjects. A professional librarian and the Housing Policy Development staff provide research assistance.

HCD also supports a growing website, at www.housing.ca.gov, that carries information and application materials for the funding programs described above, and supports an automated Clearinghouse for Affordable Housing and Community Development Finance, at www.housing.ca.gov/clearinghouse/, that lists over 200 federal, state and private sources of housing assistance, by type and geographical availability. HCD also publishes a periodic newsletter, *California Neighborhoods*, and periodic press releases.

Mission and Vision

Mission

Provide leadership, policies and programs to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians



Vision

Recognizing that housing is a basic element of a just and successful society, HCD will provide leadership towards achieving vibrant communities with quality housing for all Californians

Shared Values/Core Principles

The Department and its staff will be guided by the following shared values and core principles in carrying out its Mission:

Employees are our greatest asset

Customer satisfaction can only be achieved through the dedicated commitment of all employees to the accomplishment of the department's mission. Every job, and the individual performing that job, is a vital component of the organization and each employee is highly valued as a professional and as a person. All supervisors and managers will support, educate, mentor, and provide every opportunity to gain satisfaction from a job well done. In short, we will all treat one another with the respect we each deserve as a valued and mission critical member of the organization.

Diversity is strength

California is an extraordinarily diverse state bringing together a vast pool of experiences, perspectives, and talents. The achievement of our mission and goals is best accomplished by having a workforce that reflects and represents this extraordinary diversity.

All work is done with honesty, integrity, and personal responsibility

Because we respect and value each other we will be models of the professionalism and responsibility we expect from others. We will do our best at all times and strive to do the right thing.

Work as one team to accomplish the Department's mission and goals

Working together as a team, close coordination among units and divisions, will enable us to accomplish our goals and achieve success.

Continuously improve

We must always and continuously strive to find new and better ways to meet our customer's needs. Because technology and the economy are constantly changing, provided with information and resources, the creative energies of our employees can, and will, find ever more inventive and efficient ways to better serve our customers and to further our mission.

Strategic Issues

To successfully fulfill our mission, HCD must work to:

- Increase the overall supply of housing including the supply of housing affordable to all economic segments of our communities.
- Facilitate production of 225,000 owner occupied and rental homes per year.
- Encourage local governments to “take care of their own” and encourage efficient land use patterns, minimizing impacts on valuable habitat and productive farm land.
- Address barriers that constrain housing development, including those found in existing law.
- Increase funding and create new sources of funding for affordable housing, in light of the eminent depletion of funding provided by the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46).
- Effectively enhance California’s economic strength and competitiveness and support local community development efforts.
- Educate the public about the need for and benefits of adequately planning for the housing needs of their own families and the workers their communities depend upon.
- Conserve and preserve the State’s existing housing.
- Effectively influence or mediate competing visions among stakeholder interests. For example, how do we balance the State’s desire for environmental protection and its need for housing, community and economic development?
- Establish and maintain an excellent workplace environment, select, support and retain mission-driven staff and improve organizational efficiency and effectiveness.
- Address severe resource constraints in the department’s health and safety inspection programs.



Goals and Objectives

Goal One

**Ensure local governments
“take care of their own” by providing
an adequate housing supply in an efficient
land use pattern while minimizing impacts
on valuable habitat and productive farmland.**

Objectives:

- **Increase housing supply by strengthening the effectiveness of housing element law as a tool to reduce local regulatory barriers.**
- **Establish a new methodology to incorporate in local general plans that ensures local governments “Take Care of Their Own” for an adequate housing supply.**

Goal Two

Remove barriers to increasing overall housing supply.

Objectives:

- **Identify, evaluate, and address the most critical regulatory barriers to housing production.**
- **Generate broad-based public support for housing.**
- **Identify, evaluate, and resolve potential policy-regulatory conflicts between/among state departments.**
- **Evaluate and streamline the adoption and implementation of state building and housing codes.**

Goal Three

**Establish a permanent funding source
for affordable housing.**

Objectives:

- **Evaluate funding sources, program activity options, and housing needs related to a permanent funding effort.**
- **Propose a program activity strategy.**

Goal Four

**Ensure the health and safety of residents
in manufactured housing.**

Objectives:

- **Ensure that manufactured housing is properly constructed and installed.**
- **Ensure that mobilehome parks and manufactured housing are properly maintained.**

Goal Five

**Strengthen communities by attracting,
expanding and retaining business
and jobs for Californians.**

Objectives:

- **Evaluate the impact and potential of the Department of Housing and Community Development's current economic development programs including the Enterprise Zone Program.**
- **To ensure program objectives are met, institutionalize a comprehensive audit program as an ongoing function for the Enterprise Zone Program.**

Goal Six

**Strengthen, empower, and support staff
and their supervisors.**

Objectives:

- **Organize and provide annual training for employees, supervisors and managers in the basic skills needed to do their jobs.**
- **Develop and distribute clear core expectations for each work unit and efficiently respond to those who need help in meeting those expectations.**
- **Re-examine recruitment, examination, hiring, compensation, and promotional processes and find better ways to ensure the hiring and promotion of strong candidates.**
- **Celebrate success.**

Goal Seven

Improve organizational efficiency and customer service.

Objectives:

- **Evaluate and develop an appropriate uniform state agency application.**
- **Continue effective administration of Proposition 46.**
- **Improve customer service and operational efficiency by strengthening capacity to support, maintain, and enhance automated systems.**
- **Develop an effective communication system for the Division of Codes and Standards.**